

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

January 19, 2010

The Capital Projects and Bond Oversight Committee met on Tuesday, January 19, 2010, at 2:30 p.m., in Room 169 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron and Steven Rudy.

Guests: Bob Wiseman, University of Kentucky; Larry Owsley, University of Louisville; James Street, Eastern Kentucky University; Charles Bush, Division of Real Properties; Sandy Williams, Kentucky Infrastructure Authority; Katie Smith, Department of Financial Incentives, Economic Development Cabinet; Brett Antle, Office of Financial Management; and Rick McQuady and John Herald, Kentucky Housing Corporation.

LRC Staff: Don Mullis, Kristi Culpepper, Samantha Gange, and Jesse Fries.

Senator Tori made a motion to approve the minutes of the December 15, 2009 meeting. The motion was seconded by Representative Rudy and approved by voice vote.

Representative Westrom called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items: the quarterly status reports from the Finance and Administration Cabinet, the universities that manage their own construction projects, and the Administrative Office of the Courts (AOC); correspondence from the Kentucky Infrastructure Authority (KIA) regarding members questions from the December 2009 meeting; and correspondence from the Finance and Administration Cabinet regarding notice of advertisement for leased space.

Next Mr. Mullis noted that members' folders also contained several information items: KIA American Recovery and Reinvestment Act projects update; proposed legislation related to the jurisdiction of the Capital Projects and Bond Oversight Committee; and the staff and bond market updates.

Representative Westrom called on Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK) to report a lease modification. Mr. Wiseman

reported a modification to PR-8303, a lease between UK and the UK Federal Credit Union for space located on Export Street in Lexington. Rather than terminate the lease previously occupied by the College of Pharmacy, UK has opted to relocate several Provost Office area divisions into the space. UK has requested renovations to the building, including additional space to accommodate offices, records storage, painting, and carpet replacement. The cost of the lease will increase by \$15,721 and will be amortized over the remaining lease term (December 31, 2012). No Committee action is required.

Next Representative Westrom called Larry Owsley, Vice President for Business Affairs, University of Louisville (UL) to report two lease related items. Mr. Owsley said the first item was a lease modification to PR-7058, a lease between UL and MedCenter One, LLC for space located on East Broadway in Louisville. UL has requested an additional 1,689 square feet of space to the original 35,086 square feet to be used for additional health science center offices. The cost of the lease will increase by \$29,723 and will be amortized over the remaining lease term (through July 31, 2011). No Committee action is required.

Mr. Owsley said the second item was a new lease (SR-100901) exceeding \$100,000 between UL and Watterson Medical Center, LLC for space located on Newburg Road in Louisville. The new space will be utilized for additional medical offices needed for UL Family Medicine. The university will add 5,544 square feet of office space (\$20 per square foot) with an annual cost of \$111,157 through December 31, 2018. Action is required on leases with an annual cost in excess of \$100,000.

Representative Rudy made a motion to approve the new lease for UL. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Next Representative Westrom called James Street, Associate Vice President for Capital Planning/Facilities Management, Eastern Kentucky University (EKU), to the table. Mr. Street asked for the Committee's approval for a scope increase for the New Science Building project from restricted funds in the amount of \$5,558,300. The restricted funds are derived from interest income, contingency, and excess academic receipts. The scope increase is needed to fund unforeseen expenses related to site development and higher than expected costs for the building chillers and air handlers. The revised scope of the project will be \$64,666,300.

Representative Rudy made a motion to approve the scope increase for EKU. The motion was seconded by Senator Tori and approved unanimously by roll call vote.

Representative Westrom asked Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report two items related to leases. Mr. Bush said the first item was a report of changes in square footage for eight state leases for

the period July through September 2009. The lease modifications were less than \$50,000 and did not require Committee action.

Senator Buford asked if both PR-4123 and PR-2829 were property of the Montgomery County Fiscal Court. Mr. Bush responded affirmatively.

In response to another question from Senator Buford, Mr. Bush said that in regards to the leased space related to PR-2829 renovations were made to the building and the leased space related to PR-4123 was in a newer building.

Mr. Bush said the second item was a lease renewal (PR-2591) between Louisville Jefferson Metro Government and the Office of Attorney General, Unified Prosecutorial System in Jefferson County for space located on West Liberty Road in Louisville. No square footage increase is necessary and the annual cost of the lease is \$313,838 (no rent increase). The lease term is through June 30, 2012. Action is required on leases with an annual cost in excess of \$100,000.

Senator Leeper made a motion to approve the lease renewal. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Next Representative Westrom called on Sandy Williams, Financial Analyst, KIA to present several loans. Ms. Williams said that the first loan request was a Fund A loan increase for Sanitation District No. 1 in Boone, Kenton, and Campbell Counties. The District is requesting an increase in the amount of \$787,220 to the \$740,000 Fund A loan approved by the Committee at the June 2009 meeting. The increase results from an additional wetland site that was identified and will allow for the construction of two 3-acre wetland cells. The new loan amount is \$1,527,220 with a 20-year term and an interest rate of two percent. Funds for this loan increase were provided by decreases to two other American Recovery and Reinvestment Act loans for the District because of favorable bids. This project represents \$1,527,220 of Kentucky's Green Reserve requirement. Funding for this loan comes from the American Recovery and Reinvestment Act.

The second loan request was a Fund A loan increase for the City of Pineville in Bell County. The City is requesting an increase in the amount of \$490,000 to the \$1,703,000 Fund A loan approved by the Committee at the July 2009 meeting. The loan increase is needed because of increased costs related to the sewer line being placed lower than anticipated. The new loan amount is \$2,193,000 with a 20-year term and an interest rate of one percent. Funding for this loan comes from the American Recovery and Reinvestment Act.

The third loan request was a Fund A loan increase for the City of Calvert City in Marshall County. The City is requesting an increase in the amount of \$250,000 to the

\$796,065 Fund A loan approved by the Committee at the October 2009 meeting. The new loan amount is \$1,046,065 with a 20-year term and an interest rate of three percent. Funding for this loan comes from the American Recovery and Reinvestment Act made available by a decrease of the same amount to the Fund A loan for Calvert City's Riverport project.

The fourth loan request was \$6 million Fund A loan for the City of Ashland in Boyd County for various capacity upgrades to two pump stations. The loan term is 20-years with an interest rate of two percent.

Senator Tori asked how many people would be served by the project upgrade for the City of Ashland. Ms. Williams said that she wasn't sure on the exact amount of people the upgrade would serve, but that the upgrades would serve people on Sixth Street and Roberts Drive.

In response to a question by Senator Buford regarding the project for Sanitation District No. 1, Ms. Williams said that the project will divert flows from a stream into a wetland and the wetland will help with the combined sewer overflow problem.

Representative Westrom asked if the Sanitation District No. 1 was required to work with the Army Corps. of Engineers for this type of project. Ms. Williams responded that she was not sure, but that the District had to work with the Environmental Protection Agency.

Senator Leeper made a motion to approve the three Fund A loan increases and the new Fund A loan request. The motion was seconded by Senator Tori and passed unanimously by roll call vote.

Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Next Representative Westrom called on Katie Smith, Deputy Commissioner, Department of Financial Incentives, Economic Development Cabinet, to discuss a new Economic Development Bond (EDB) Pool grant. Smith asked the Committee for its approval of an EDB grant in the amount of \$250,000 for the Pike County Fiscal Court for the benefit of EQT Corporation. The grant proceeds will offset the cost of construction, lease, and equipping of a 35,000 square-foot facility and a 10,000 square foot ancillary warehouse facility. Pursuant to the EDB grant agreement, EQT will be required to maintain the existing 147 full-time jobs and create 100 new, full-time jobs within three years. Additionally, EQT will be required to pay the 100 new jobs an average hourly wage of not less than \$26.78, excluding benefits.

In response to a question from Representative Westrom, Ms. Smith said that EQT is a natural gas company.

Representative Rudy made a motion to approve the EDB grant for EQT Corporation. The motion was seconded by Senator Carroll and passed unanimously by roll call vote.

Representative Westrom called Brett Antle, Deputy Director, Office of Financial Management, to the table to report several items. Mr. Antle said the first item was a new bond issue for the Kentucky Asset/Liability Commission Project Notes, 2010 Federal Highway Trust Fund First Series (GARVEEs) in a principal amount not to exceed \$100 million. This bond issue provides permanent financing for \$100 million of the \$231 million authorized by the 2008 General Assembly in HB 406 for the Louisville Southern-Indiana Ohio River Bridges project. The bond issue may include both tax-exempt and taxable Build American Bonds components.

Senator Carroll asked what percentage of Federal Highway Trust funds received are committed to repay GARVEE bonds. Mr. Antle said he was not sure and would provide the information to Committee staff.

Senator Buford made a motion to approve the new bond issue. The motion was seconded by Representative Rudy and approved unanimously by roll call vote.

Next Rick McQuady, Chief Executive Officer, Kentucky Housing Corporation (KHC), and John Herald, Chief Financial Officer, KHC, came to the table to provide a follow-up report for the KHC Revenue Bonds Series 2009 C (Taxable Escrow Bonds). Mr. McQuady said as part of the New Issue Bond Program offered by the federal government, KHC issued \$180 million 30-year bonds at a 3.81 percent rate. The bonds are being securitized by Fannie Mae and Freddie Mac and will be privately placed with the US Treasury. The Committee approved this issue at the October 2009 meeting and allowed KHC to take the necessary steps to participate in the program. No Committee action was needed.

Senator Tori asked if KHC had exhausted their bonding authority for fiscal year 2010. Mr. McQuady responded that KHC had not and if needed multi-family conduit bonds could be issued this year.

Next Mr. Antle provided three follow-up reports for Kentucky Economic Development Finance Authority (KEDFA). The first report was for KEDFA Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2009 A (Saint Elizabeth Hospital Facilities Revenue Refunding Bonds, Series 2009 B (Saint Elizabeth Medical Center, Inc.). Proceeds from this bond issue will finance the acquisition, construction, installation, and equipping of healthcare facilities, including a new ambulatory care

facility in Covington, Kentucky; and Refund Hospital Facilities Revenue Refunding and Improvement Bonds, Series 2003 A, 2003 B, and 2003 C (Saint Elizabeth Medical Center, Inc. project) - \$109.1 million outstanding principal, which were issued as auction rate securities. The Committee approved this issue at the October 2009 meeting.

The second report was for KEDFA Healthcare Facilities Revenue Bonds, Series 2009 (Masonic Homes of Kentucky, Inc. Project). Proceeds from this bond issue will construct and equip a new 186,000 square foot healthcare facility to provide 136 skilled care nursing beds and inpatient and outpatient rehabilitation, dialysis, and dementia services, and palliative care. The new facility will be located in Louisville; and refinance a \$2 million line of credit established to pay for improvements to long-term care facilities located in Shelby County. The bond issue was approved by the Committee in July 2009 and was resubmitted and approved in November 2009 as a bank-eligible purchase transaction.

The third report was for KEDFA Healthcare Facilities Revenue and Refunding bonds, Series 2009 (Kentucky Easter Seal Society, Inc. Project). A portion of the proceeds from this bond issue will be used to (1) provide new money for an addition to the Cardinal Hill Rehabilitation Hospital in Lexington and (2) refund outstanding variable rate debt that has been affected by events in the financial markets. No Committee action is required on follow-up reports for previously approved bond issues.

Senator Carroll asked if the amount of conduit bonds is excluded from bonds issued by the state in the ranking of bonds supported by General Fund receipts. Mr. Antle responded affirmatively.

Next Mr. Antle reported 11 new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Boyle County, Clark County, Cloverport Independent in Breckinridge County, Gallatin County, Henry County, Hopkins County, Lincoln County, McCracken County, Perry County, Somerset Independent in Pulaski County, and Whitley County.

Senator Carroll made a motion to approve the 11 SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Representative Westrom asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were seven new school district bond issues with 100 percent local debt support for Boone County, Calloway County, Daviess County, Fayette County, Madison County, Paducah Independent, and Warren County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded by Representative Damron and the meeting adjourned at 3:15 p.m.